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IN THE

Supreme Court of the United States

OCTOBER TERM, 1983

PIHER INTERNATIONAL CORPORATION and PIHER SOCIEDAD ANONIMA,

Petitioners,

v.

CTS CORPORATION,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

RESPONDENT'S BRIEF IN OPPOSITION

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STATEMENT OF THE CASE

The District Court's denial of Petitioner's Motion under Rule 60(b)(6) of the Federal Rules of Civil Procedure was predicated upon explicit findings of fact entered after hearing the testimony of a number of witnesses called by each party and a full consideration of all documentary evidence presented by both parties. These findings of fact were reviewed by the Court of Appeals for the Federal Circuit and none of them is directly challenged or asserted

to be clearly erroneous in the Petition although Petitioner* repeatedly asserts facts directly contrary to the findings.

The principal findings which prompted the District Court to deny Petitioner's motion were:

(1) the interference terminated at least by November 4, 1981, which was more than two weeks prior to the first meeting between the parties on November 23 to discuss settlement of the accounting then in progress (D-12)**;

(2) Petitioner failed to carry its burden of proof that settlement of the interference or the possibility of Petitioner's filing a petition for writ of certiorari seeking review of a final appellate court decision adverse to it in Petitioner's 35 U.S.C. §146 suit were even discussed during the settlement meeting (D-2 to D-10);

(3) there was no evidence to indicate that the possibility of Petitioner filing a petition for writ of certiorari played any part whatsoever in the settlement of the accounting matters even if one assumed that this subject was casually mentioned during the November 23, 1981 meeting (D-9 to D-12);

(4) the parties did not reach a mutually acceptable preliminary agreement in principle until December 16, 1981 and during the period between that date

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* In the first court decision rendered in this lengthy litigation, the two named petitioners were found to be *alter ego* companies [i.e. 184 USPQ 399, 400-401] and, hence, they are referred to herein by the singular term, "Petitioner".

** The Appendices to the Petition are referred to herein as A____, B____, C____, D____ and E____, the Petition is referred to as P____, and the Appendices to this brief are referred to as F____, G____ and H____.

and November 23, 1981 neither party was bound by any of the partial matters tentatively discussed previously (D-13 to D-15);

(5) the final settlement agreements based in part on the agreement in principle were negotiated during the period after December 16, 1981 and were completed on January 14, 1982 (D-15);

(6) Petitioner conceded in the District Court that the interference terminated on December 10, 1981 (i.e. when the Court of Appeals for the Seventh Circuit issued a second mandate a few days after it denied Petitioner's request for reconsideration of the final decision in the suit under 35 U.S.C. §146) (F-3, 5, 9, 10);

(7) because of these facts, among others, there was no causal connection between the agreements settling the accounting matters and the termination of the interference (D-11).

Petitioner never alleged in the District Court that it was not required to show a causal connection between the termination of the interference and the settlement (C-2) but, to the contrary, urged that it could and would produce sufficient evidence to establish such a connection. It attempted to do so in an evidentiary hearing but the District Court found the evidence insufficient to sustain Petitioner's burden of proof (D-2 to D-12). In Petitioner's appeal to the Court of Appeals for the Federal Circuit it argued that the agreements "were the direct cause of the termination" (B-11) and then urged inconsistently and *for the first time* that such causal connection was "irrelevant" and need not be shown.

FACTUAL BACKGROUND

The present litigation began in 1972 when Respondent filed suit charging Petitioner with infringement of four U.S. patents including Patent No. 3,670,285 (hereinafter '285). In a decision reported at 184 USPQ 399, the District Court found Petitioner had infringed three of the patents and found those patents valid, the issue of infringement of the '285 patent having been removed by stipulation and the court also found that Petitioner had failed to show the '285 patent was invalid because of Petitioner's own offers for sale. During the pendency of the latter suit (i.e. on June 6, 1973) Petitioner filed an application for reissue of its U.S. patent No. 3,662,314 adding 19 claims which it copied from the '285 patent. The U.S. Patent and Trademark Office (hereinafter "PTO") declared Interference No. 98,455. Piher appealed from the District Court decision and in a decision reported at 527 F.2d 95, which was authored by Judge (now Mr. Justice) Stevens, the appellate court affirmed the District Court on every issue except the "on sale" question which was remanded for a new trial and was assigned to Judge Grady. A petition for writ of certiorari was denied. 424 U.S. 978, 96 S.Ct. 1485 (1976).

In 1976 Respondent filed Civil Action 76 C 1152 again charging Petitioner with infringement of the '285 patent and that suit was also assigned to Judge Grady. On December 7, 1976 pursuant to stipulation (G1, G2), the latter case was stayed under conditions which provided that if Respondent prevailed in the interference and on the remanded "on sale" issue in decisions which "*become final*" a judgment of infringement and validity of the '285 patent would be entered against Petitioner. The "on sale" issue was decided in Petitioner's favor in an unpublished

decision but, on appeal, the judgment entered by Judge Grady was reversed in a decision reported at 593 F.2d 777 (7th Cir. 1979). Petitioner moved for a stay of the appellate court mandate but the motion was denied because the court said there was little likelihood a petition for writ of certiorari would be granted. Such a petition was thereafter denied. 444 U.S. 884, 100 S.Ct. 175 (1979). Judge Grady ordered that an accounting proceed to determine the damages flowing from Petitioner's infringement of all four patents of Respondent. The accounting was prolonged, required numerous court appearances and "dragged out for years" (D-10).

All available evidence relating to the priority of invention issue was taken in the interference and presented to the PTO. In April, 1978 the PTO, in a decision reported at 200 USPQ 597, found Respondent was the first inventor of most of the subject matter common to the '285 patent and Petitioner's patent*. Petitioner filed suit under 35 U.S.C. §146 seeking review of the PTO decision and, in a decision dated September 27, 1979, the District Court reversed and remanded to the PTO that portion of the PTO decision which held Petitioner was precluded by "collateral estoppel" from proving an invention date earlier than that of Respondent. The PTO on April 18, 1980 in an unpublished decision again awarded priority of 18 of the 19 counts (i.e. claims) to Respondent without taking any further evidence. Petitioner filed a new suit under 35 U.S.C. §146 and in a decision dated March 9, 1981, which is reported at 210 USPQ 806, the District Court affirmed the PTO decision, whereupon Petitioner appealed to the Seventh Circuit Court of Appeals. On November 4, 1981 the District Court judgment was affirmed by a

* Priority as to one claim was found in Petitioner's favor but that claim is not involved in this petition.

unanimous decision reported at 664 F.2d 122 and the mandate was issued on November 6, 1981*. As Judge Grady found:

> "The interference was *fully litigated* before the Patent Office, before the District Court, before the Court of Appeals. As a practical matter it was over."** (D-17)

On November 10, 1981 a "Judgment Order" was entered by Judge Grady in Civil Action 76 C 1152 because of the stipulation (G-1, G-2) and because Respondent had prevailed in "*final*" decisions in both the interference and the "on sale" issue. The judgment explicitly found Respondent was the "*prevailing party*" on both issues, enjoined Petitioner from further infringement of the '285 patent and awarded Respondent damages in an amount to be determined by the accounting already in progress. On November 18, 1981 a formal writ of injunction was issued by the District Court and on November 21, 1981 the PTO, relying upon the November 4 decision and the November 6 mandate of the Seventh Circuit Court of Appeals issued a formal notice of termination of the interference (H-1) which has never been vacated, altered or superseded by the PTO. Neither the December 2 decision denying Petitioner's Petition For Rehearing nor the December 10 mandate was ever sent to the PTO by either party and no attempt was made by Petitioner subsequent to November 21, 1981 to alter the terminated status of the interference.

On November 23, 1981 management representatives of Respondent and Petitioner met *for the first time* to at-

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* This mandate was recalled shortly after Petitioner filed a Petition for Rehearing of the appellate court decision and at about the same time (i.e. on December 2, 1981) the appellate court denied rehearing without opinion. On December 10, 1981 a renewed mandate was issued.

** Emphasis added throughout.

tempt to discuss and settle "the accounting" (D-10) and not "legal questions" (D-3)*. It was admittedly a "meeting between businessmen" and "laymen" were to negotiate (D-3). The District Court found:

> "Had it been intended to discuss legal questions, lawyers would have been present in their capacity as lawyers. That is precisely what the parties did not intend would occur". (D-3)

Neither Petitioner's then pending petition for rehearing in the appellate court nor the interference was discussed. Petitioner did not sustain its burden of showing that possible filing of a petition for certiorari seeking Supreme Court review was discussed (D-2 to D-4). Near the close of the meeting Respondent's representatives presented a number of basic terms that were fundamental before any final settlement agreement could be consummated and gave Petitioner twenty-four hours to accept those basic terms. The following day, Petitioner's counsel conveyed Petitioner's acceptance of these basic terms and Respondent's counsel on November 25th sent by Telex a draft proposal for discussion purposes. Petitioner's counsel understood that this proposal was a "draft" and he rejected it because it "went beyond" the discussion at the November 23 meeting**. Petitioner's management found the proposal unacceptable because of omission of a matter of concern to Petitioner. Petitioner instructed its counsel to negotiate further with Respondent and he redrafted the proposal and sent a counter-proposal, which he still regarded as a "draft", to Respondent for consideration**.

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* Petitioner's naked assertion that the meeting was for the purpose of discussing and settling the interference litigation (P 8) is directly contrary to the District Court's finding as to the purpose of the meeting and is also contrary to the record.

** The quotes are from the transcript of the testimony of Petitioner's own counsel.

Between November 25 and December 10 the parties continued to exchange "draft" proposals each including a number of changes from the preceding one (D-14). Petitioner's counsel understood that the changes Petitioner proposed were subject to "review by the CTS executives before they would agree" and that at least some of these changes had to be approved by Respondent's counsel*. By December 11, 1981 Respondent was satisfied with the "Agreement In Principle" (i.e. a preliminary agreement which would hopefully lead to a final settlement of the accounting) and it sent a copy, signed by its counsel, to Petitioner for signature, which signature was not affixed until December 16, 1981 (D-14). It was understood between the parties that no settlement would be made in the absence of a "signed document" (D-14). Judge Grady found:

> "I reject completely the argument of Piher that these parties had entered into what they each believed was a binding agreement on the 25th of November." (D-13)

He found the various proposals exchanged prior to December 11, 1981 were "obviously preliminary and preparatory drafts" (D-14) and he found "as a fact that Piher would have turned its back on any of these" by asserting they "were not final" (D-14). Judge Grady further found:

> "It is perfectly apparent from this evidence that both sides regarded the writings that were exchanged prior to the signing of the agreement in principle on December 16 as drafts of an agreement that would not be considered binding until it was signed by both sides." (D-14)

The December 16 "Agreement In Principle" (B-6) states that the parties "*shall* [i.e. something to be done in the

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* The quote is from the transcript of the testimony of Petitioner's own counsel.

future] join in an understanding for a release" of each other from "*any claim or claims* . . . which either party has or could have asserted against the other" in all of the aforementioned litigation. The Agreement *does not explicitly mention the interference and does not refer to the termination* of the interference. As the District Court found, the mutual release of claims was a "boilerplate" type term commonly employed in settlement agreements (D-6, D-7).

The parties proceeded to negotiate the final agreements necessary to implement the "Agreement In Principle" and by January 14, 1982 (D-13, D-15) they signed a "License Agreement", a "Stipulated Agreement" and a "Stipulated Consent Judgment In Lieu of Accounting" all of which, together with the "Agreement In Principle" were filed in the District Court (D-15)*. A copy of the consent judgment, which refers to the other three agreements, was promptly filed in the PTO but the latter three agreements were not filed in the PTO by either party.

The District Court found that both parties "know that there is nothing anti-competitive" about any of the agreements (D-14). The "Settlement Agreement" (B-6, B-7) lists three "*pending*" matters (i.e. three civil actions) and it refers to the "interference" but that proceeding is *not* listed as "*pending*".

In view of the foregoing facts the District Court found that the interference terminated on November 4, 1981 when the Seventh Circuit Court of Appeals rendered its final decision in Petitioner's second suit under 35 U.S.C. §146 (D-12). The court said the latter decision related to a factual issue that had been decided favorably to Respon-

* All except the Consent Judgment were filed under seal and, hence, were available only upon order of the court (D-16).

dent both in the PTO and in the District Court and, at the time of the November 23 meeting, both parties implicitly recognized there was virtually no chance that the Court of Appeals would grant the pending petition for rehearing or that the Supreme Court would grant any subsequent petition for certiorari (D-7 to D-10). In view of the aforementioned finding that there was no agreement between the parties until at least December 16, 1981 and Judge Grady's further finding that the interference terminated at the very latest by December 10, 1981, just as Petitioner had conceded in the papers it submitted to him (F-3, 5, 9, 10)*, Judge Grady found there was no agreement in writing that could have been filed prior to the termination of the interference (D-15). He further found that there was no "causal connection" between the agreements settling the accounting and the termination of the interference, which, in accordance with the court's findings, was terminated by a mandate and/or decision of the Court of Appeals and *not by any agreement between the parties* (D-11).

The Court of Appeals held that Judge Grady had not abused his discretion in denying Petitioner's Motion under Rule 60(b)(6) because the finding of a lack of causal connection was not shown to be clearly erroneous (B-11 to B-14). The Appellate Court did not comment upon the District Court's findings as to the date of the settlement agreement or the date of termination of the interference because it agreed with Judge Grady that Petitioner had failed to prove that the settlement agreements played any role in terminating the interference (B-12 to B-14).

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* Petitioner's present assertion that the interference did not terminate until January 25, 1982 (P 9) is not only contrary to Judge Grady's explicit findings (D-12, D-15) but is also contrary to the concession Petitioner made in the briefs it submitted to Judge Grady (F-3, 5, 9, 10).

THE ISSUES PRESENTED

The first three argumentative issues asserted by Petitioner are not even remotely presented by the present case which was decided by the District Court and the Court of Appeals on the specific facts here extant. The decisions below established no far reaching principles and certainly did not emasculate or even erode the statute*.

The sole issues raised are:

(1) Whether, upon the specific facts of this case, there was even a tenuous causal connection between the settlement agreements and the termination of the interference.

(2) Whether 35 U.S.C. §135(c) requires or even permits the filing of settlement agreements relating to an accounting for damages when the negotiations leading to such agreements did not even begin until after the interference had been terminated by full litigation and no agreement was reached until after such termination.

Since the second question is clearly answered in the negative by the explicit terms of the statute and the first question raises only factual issues which are not even contended by Petitioner to be "clearly erroneous" and do not lend themselves to review by this Court, no issue is presented which warrants granting the petition.

* During the long history of administration of 35 U.S.C. §135(c), no reported decision relates to a case, the ultimate outcome of which would have been changed if the courts had adopted the construction of the statute urged by Petitioner. Thus, the situation adopted by both courts below has not impeded enforcement of the statute.

REASONS FOR DENYING THE PETITION

I.

THE FEDERAL CIRCUIT'S INTERPRETATION OF THE STATUTE IS CORRECT AND NO CONFLICT EXISTS WITH ANY REPORTED DECISION.

The holding of the District Court and the Court of Appeals for the Federal Circuit interpreting 35 U.S.C. §135(c) to require at least a tenuous causal "connection" between an agreement and the termination of an interference is solidly grounded upon prior decisions, which have unanimously so interpreted that statute. No reported decision holds to the contrary. Therefore, the two lower court decisions in the present case are not in conflict with any reported decision of either a district court or any appellate court.

In *United States of America v. FMC Corp.*, 215 USPQ 43, 50 (E.D. Pa. 1982), cited in the Petition (P 11, 12), the government made the same contention regarding interpretation of 35 U.S.C. §135(c) as Petitioner makes in its Petition, namely, that the phrase "in connection with or in contemplation of" should be given a "broad, plain meaning interpretation of the statutory language". Such an interpretation would have resulted in violation of the statute because the four written unfiled agreements relating to foreign patent rights were, as the *FMC* court found, "negotiated at the same time as the United States agreement" and all of the agreements were urged to be one "ball of wax". FMC argued that "in connection with or in contemplation of" refers only to "agreements either causally related to the termination of the interference or which are a significant factor in causing the termination of the interference". The court found "the legislative

history is of no assistance in choosing" between the respective positions of the parties*.

After weighing the pros and cons of the two different interpretations respectively urged by the parties, the *FMC* court said:

> "In addition to the concept that justice abhors a forfeiture, there is support in the cases for defendant's narrow interpretation of 'in connection with or in contemplation of'."

The court then proceeded to analyze very carefully all of the pertinent prior decisions. It first discussed the District Court decision in *Moog, Inc. v. Pegasus Laboratories, Inc.*, 376 F.Supp. 439, 447-448 (E.D. Mich. 1973) and the affirming decision of the Sixth Circuit Court of Appeals, which is cited in the Petition (P 11, 15, 16) and which "stressed the district court's finding that there was a 'causal connection' between the agreement . . . and the termination of the interference." The *FMC* court, therefore, inferred that "at least in the Sixth Circuit a narrow interpretation of 'in connection with or in contemplation of' has been accepted".

The *FMC* court then analyzed *PPG Industries, Inc. v. Bausch & Lomb, Inc.*, 205 USPQ 914 (W.D.N.Y. 1979) and found that decision "clearly suggests the acceptance

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* While Petitioner quotes extensively from the legislative history (P 3-7) all of these quotes, as well as all of Petitioner's quotes from prior cases that have interpreted 35 U.S.C. §135(c), relate to generalities which are not in dispute between the parties and were not questioned in the decisions by Judge Grady and the Court of Appeals for the Federal Circuit. As the *FMC* court said, the legislative history relied upon by Petitioner is not helpful in determining whether the statute requires a causal connection of some sort between the agreement and the termination of the interference.

of a narrow interpretation of 'in connection with or in contemplation of' " and it found precisely the same suggestion in *Old Dominion Box Co. v. Continental Can Co.*, 273 F.Supp. 550 (S.D.N.Y. 1967), affirmed on other grounds, 393 F.2d 321 (2nd Cir. 1968).

The *FMC* court then said the "causal relationship between the unfiled agreements and the termination of the interference need not be strong" but, "in order for there to be a violation of 35 U.S.C. §135(c) at the very least the unfiled agreements *must affect the parties'* attitude toward the interference". In the case at bar, the District Court found that the settlement agreements did not affect the "parties' attitude toward the interference" both because the interference had terminated prior to the agreements and because the sole remaining possibility for further litigation of Petitioner's 35 U.S.C. §146 suit was the filing of a petition for writ of certiorari, which the court found was not only not discussed between the parties but would have been a totally useless step and one which neither party regarded as anything but sheer desperation on the part of Petitioner (D-8 to D-11). Thus, the possibility that Petitioner might resort to such a petition played no role in the settlement or in the termination of the interference and did not affect the *parties'* attitude towards the litigation (D-8 to D-10). The court in the *FMC* case, like Judge Grady in the case at bar (D-11), found no causal connection whatsoever between the unfiled agreements and the termination of the interference although the *FMC* court did find that the Government had standing to challenge the validity of FMC's patent because of the failure to file the agreements relating to the foreign patents. On appeal, the Third Circuit Court of Appeals reversed as to the standing issue and, hence, did not reach the other issues because the lack of standing by the plaintiff disposed of the controversy.

In the present case, Judge Grady held:

> "Plaintiff [i.e. Respondent] argues that this statute [i.e. 35 U.S.C. §135(c)] contemplates only agreements which have a causal relationship to the termination of the interference, and *defendant [i.e. Petitioner] does not contend otherwise.* The phrase 'made in connection with or in contemplation of' seems clearly to import a causal relationship between the agreement and the termination of the interference. I adopt this interpretation which is consistent with the purpose and the legislative history of the statute." (C-2)

The issues which Petitioner now asks this Court to review were, therefore, not even urged before Judge Grady but were, instead, raised for the first time on appeal as an aside just in case that Court disagreed with Petitioner's principal argument that the agreements "were the direct cause of the termination" (B-11). Before Judge Grady, Petitioner tacitly conceded that it was required to prove the causal connection it now disowns and it insisted upon an extensive evidentiary hearing wherein it attempted unsuccessfully to adduce such proof*.

Petitioner does not contend, much less show, that the finding of the courts below as to the lack of any causal connection between the settlement agreements and the termination of the interference is "clearly erroneous" within the meaning of Rule 52(a) of the Federal Rules of Civil Procedure. Since the finding is supported by substantial evidence no such contention can be made truthfully.

The petition should be denied because the holdings of the two courts below are consistent with all reported decisions and no conflict exists between appellate courts as to

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* As a general rule, one may not urge as a ground for reversal a theory not presented to the trial court. *Guillony v. County of Orange*, 731 F.2d 1379, 1383 (9th Cir. 1984).

the proper interpretation of 35 U.S.C. §135(c). The purported issues as to which Petitioner seeks review have been fully considered by these prior decisions and no lower court has either agreed with Petitioner or evidenced any difficulty whatsoever in applying the statute. The issues posed by Petitioner simply to not exist in this fact-oriented case and certainly do not warrant the time and attention of the Court.

II.

ADOPTION OF A BROAD INTERPRETATION OF THE STATUTE WOULD NOT CHANGE THE RESULT BELOW.

Even if the interpretation of 35 U.S.C. §135(c) by the two lower courts were incorrect, the result below would not be changed because the lower court's finding that the interference terminated by November 4, 1981 when the Seventh Circuit Court of Appeals rendered its decision in the interference (D-12) obviously means that any agreements or understandings reached after that date could not possibly fall within the statute. The statute does not permit, much less require, the filing of agreements or understandings reached subsequent to the termination of an interference since, by its explicit language, it requires the agreements or understanding within its purview to be filed "prior to termination". Clearly, an agreement or understanding reached after an interference has terminated cannot be filed prior to such termination. The District Court held that "§135(c) requires the filing of agreements which have been *reduced to writing prior to the termination of the interference* and no others". (C-4) That holding is not challenged in the Petition. In the present case, the interference terminated on November 4, 1981 (D-11, D-12) nearly three weeks before the parties first met to discuss the possibility of settling the accounting then in progress.

The District Court's findings that the very latest conceivable date for termination of the interference was December 10, 1981 when the second mandate of the Seventh Circuit Court of Appeals issued (D-12, D-13, D-15)* and that no agreement or understanding mutually acceptable to the parties was reached at the earliest until December 16, 1981 when Petitioner signed the preliminary Agreement In Principle (D-14, D-15) also means the settlement agreements were not within the statute because they were not reached until after the interference terminated. Since no mutually acceptable agreement or understanding existed in writing prior to December 10 when the second appellate court mandate issued, it would have been impossible to file any such agreement prior to that date.

Petitioner obviously did not believe the settlement agreements were required by 35 U.S.C. §135(c) to be filed in the PTO since *it* did not file them even though the statute would have compelled such filing if Petitioner's position were correct. Petitioner has never disclaimed or dedicated to the public its own patent No. 3,662,314 even though it should have done so if it genuinely believed that it had violated 35 U.S.C. §135(c) by its failure to file the agreements. Petitioner's entire argument relating to the purported violation of 35 U.S.C. §135(c) is a contrived distortion of the statute in an attempt to renege on settlement agreements reached after almost ten years of litigation (D-13, D-14). Nothing in this case warrants granting of the Petition to prolong further this seemingly endless litigation.

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* See *Application of Jones*, 542 F.2d 65, 69 (CCPA 1976) and *Continental Can Company v. Schuyler*, 326 F.Supp. 283, 284 (D.D.C. 1970), which are in accord, and Petitioner's own concession (F-3, 5, 9, 10). That it is the PTO practice to terminate an interference when an appellate court decision is rendered is also apparent from its November 21, 1981 termination notice in the case at bar (H-1).

CONCLUSION

For all of the foregoing reasons, the Petition For Writ Of Certiorari To The Court Of Appeals For The Federal Circuit should be denied.

Respectfully submitted,

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APPENDIX F

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

CTS CORPORATION, *Plaintiff,* v. PIHER INTERNATIONAL CORPORATION, and PIHER SOCIEDAD ANONIMA, *Defendants.*	)	Civil Action No. 72 C 1891 and Civil Action No. 76 C 1152

DEFENDANTS' MOTION UNDER RULE 60(b)(6) TO MODIFY JUDGMENT ORDER HEREIN DATED JANUARY 25, 1982 TO CONFORM TO THE FACT THAT THE '285 PATENT AND AGREEMENTS "A", "B", AND "C" RECITED IN THE JUDGMENT ORDER ARE NOW PERMANENTLY UNENFORCEABLE BY OPERATION OF LAW (35 U.S.C. Section 135(c))

INTRODUCTION

Defendants, Piher International Corporation and Piher Sociedad Anonima, hereby respectfully move this Honorable Court under Rule 60(b)(6), Federal Rules of Civil Procedure, to modify the Consent Judgement Order entered herein on January 25, 1982, to conform to the fact that the three agreements ("A", "B", and "C") and one of the patents ('285) recited in the Consent Judgment Order have

become permanently unenforceable by operation of law, in accordance with the provisions of 35 U.S.C. Section 135(c) (a copy of Section 135(c) is attached hereto for convenience as Exhibit A).

This statute requires all agreements made in connection with the termination of an interference proceeding in the United States Patent and Trademark Office be filed therein prior to the termination of the interference or, upon a proper showing, within six months thereafter. The penalty for failure to so file is permanent unenforceability of all such agreements and the patent involved.

In the instant case, the agreements between the parties terminating the interference involving the CTS '285 patent were not filed before termination of the interference and no attempt for a proper showing of good cause was made during the six months thereafter. Accordingly, CTS' '285 patent and settlement agreements "A", "B", and "C" are permanently unenforceable.

STATEMENT OF FACTS

More specifically, by virtue of paragraph 2 of the aforesaid January 25, 1982, Judgment Order by this Court, this Court retained continuing jurisdiction over the subject matter in and parties to this action (a copy of the Order is attached hereto for convenience as Exhibit B). This Order was entered pursuant to agreements between the parties hereto to settle the litigation between them, including Interference No. 98,455 which involved the CTS '285 patent. Those settlement agreements resulted from oral face-to-face negotiations on November 23, 1981, which were subsequently reduced to writing on December 11, 1981, and executed by the parties shortly thereafter. Two additional agreements, a Settlement Agreement and a Li-

cense Agreement, were entered into by the parties in early January of 1982, pursuant to the initial agreement. The initial agreement, Settlement Agreement, and License Agreement, are commonly referred to as Settlement Documents "A", "B", and "C", respectively.

Because of the agreement made between the parties on November 23, 1981, defendants did not pursue any further appeals in the aforesaid interference. The Patent Office issued a paper (No. 206, a copy of which is attached hereto as Exhibit C) stating that because no further appeal had been filed it considered the interference "to be terminated as of the date of the Court action" (December 10, 1981, the date of the mandate of the United States Court of Appeals for the Seventh Circuit).

On February 2, 1982, CTS filed a document in the Patent Office advising that the litigation between CTS and Piher had been settled and that the validity of the patents involved had been upheld. This document further advised that a similar document entitled "Notification Of Settlement Of Civil Action Nos. 72 C 1891 and 76 C 1152" had been filed with the Board of Patent Interferences. The latter document likewise merely advised that the litigation had been settled and that the validity of the patents had been upheld. Attached to this document was a copy of the "Stipulated Consent Judgment In Lieu Of Accounting" that had been entered by Judge Grady on January 25, 1982, pursuant to the agreements between the parties. Although the Consent Judgment refers to "concurrently filed sealed documents A, B, and C [the Agreement In Principle, the Settlement Agreement, and the License Agreement]" they were not included with the copy of the Consent Judgment filed in the Patent Office.

Section 135(c) of Title 35, United States Code, in relevant part states that all agreements "made in connection

with or in contemplation of the termination of the interference, shall be in writing and a true copy thereof filed in the Patent and Trademark Office before the termination of the interference as between the said parties to the agreement or understanding. . . . Failure to file the copy of such agreement or understanding shall render *permanently unenforceable* such agreement or understanding and any patent of such parties involved in the interference or any patent subsequently issued on any application of such parties so involved". (emphasis added). Settlement Document B states:

> "WHEREAS, PIHER and CTS have been adverse parties in each of the following proceedings:
>
> * * *
>
> D. *English v. Heredero*, Interference proceeding No. 98-455 in the United States Patent and Trademark Office.
>
> * * *
>
> NOW, THEREFORE, in consideration of the mutual promises set forth herein, the parties agree as follows:
>
> 1. *Agreement In Principle.*
>
> The parties hereto agree to ratify and supplement hereby an Agreement In Principle attached hereto as Exhibit A dated December 11, 1981 and executed December 11, 1981 by their properly acting agents who executed on behalf of their respective principals said Agreement.
>
> 2. *Termination of Disputes.*
>
> The parties hereto agree to terminate each of the above-identified civil actions and administrative proceedings between the parties . . ."

Section 135(c) provides for a six-month "grace period" subsequent to the termination of the interference. During such period, upon "a showing of good cause for failure

to file within the time prescribed", the Commissioner of Patents and Trademarks may grant permission for late filing. Settlement Documents A, B, and C were not filed during the six months from December 10, 1981, through June 10, 1982.

JUDICIAL INTERPRETATION OF THE STATUTE

Public Policy Behind The Statute

The statute is punitive in nature and is designed to permit the United States Department of Justice to inspect agreements for possible antitrust violations. In *Moog Inc. v. Pegasus Laboratories, Inc.*, 521 F.2d 501 (6th Cir. 1975), the appeals court affirmed the district court's decision declaring a patent permanently unenforceable because of the failure to file a *supplemental* settlement agreement between the parties to the interference. The original settlement agreement was properly filed in accordance with Section 135(c) but, even though an agreement supplementing the original agreement was in fact filed with the Patent Office, it was not filed within the time prescribed by Section 135(c). In declaring the patent involved permanently unenforceable, the Sixth Circuit Court of Appeals held:

> "We hold that this statute [35 U.S.C. Section 135(c)] is designed to restrict monopolistic practice and (at least for purposes of this case) means just what it says and requires no interpretation" (521 F.2d, at 502).

The Court then went on to discuss the public policy behind the statute and quoted from Department of Justice comments during Senate considerations of the statute, as follows:

"The Supreme Court in holding a private interference settlement to be so inequitable as to preclude the enforcement of the resulting patent stated in *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 815-816, 65 S.Ct. 993, 89 L.Ed. 1381 (1945):

> '* * * The possession and assertion of patent rights are "issues of great moment to the public" [citing cases]. A patent by its very nature is affected with a public interest. As recognized by the Constitution, it is a special privilege designed to serve the public purpose of promoting the "progress of science and useful arts". At the same time, a patent is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope. The facts of this case must accordingly be measured by both public and private standards of equity.'

The purpose of this legislation is to make it more difficult for patent applicants to use an interference settlement agreement as a means of violating the antitrust laws. It seeks to accomplish this purpose by providing that no such agreement or understanding shall be enforceable unless all of its terms are in writing and filed prior to the termination of the interference proceeding. It is our view that this prohibition would not adequately deter violations of the antitrust laws. It is therefore suggested that the measure be amended to provide that parties to an interference settlement agreement shall be precluded from enforcing the resulting patent unless a copy of the settlement agreement has been filed with the Patent Office prior to the termination of the interfer-

ence. In order to protect innocent parties who inadvertently fail to file a copy of their settlement agreement, the Commissioner of Patents should be given the authority to entertain, at any time during the 6-month period subsequent to the termination of the interference, a petition by either party for leave to file a copy of the agreement, which petition may be granted on a showing of good cause for the failure to file within the time prescribed. Further, it is suggested that the bill should provide a right of action in the United States to obtain a civil penalty for failure to file a copy of an interference agreement.

S.Rept.No.2169, 87th Cong., 2d Sess., Reported in 2 U.S.Code Cong. & Admin.News, pp. 3286, 3289 (1962).

The Senate Report on Section 135 recited its central purpose:

The purpose of this bill is to amend the patent laws to require the filing in the Patent Office of agreements settling patent interference proceedings. When two or more applicants claim substantially the same invention as interference is declared in order to determine which applicant is entitled to priority. Interference proceedings may be terminated in a manner hostile to the public interest by using patent interference settlement agreements as a means of restricting competition. To make such a practice more difficult the bill requires the filing of such agreements in the Patent Office.

Id. U.S.Code Cong. & Admin.News, 1962 at p. 3286."

What Agreements Must Be Filed?

The statute says "Any agreement or understanding between parties to an interference, including any collateral agreements referred to therein, made in connection with or in contemplation of the termination of the interference,

. . ." shall be filed in the Patent and Trademark Office. During the Senate hearings referred to hereinabove, the Commissioner of Patents at that time, David Ladd, was asked whether he thought the language of the bill was unclear regarding the types of agreements required to be filed. Ladd responded:

> "As to clarity, it seems to me it is quite clear. It is *all* agreements in contemplation or in settlement of interferences." (Senate hearings, *supra*, note 2, at page 16, emphasis added).

In the very recent decision of *United States of America v. FMC Corporation*, 514 F.Supp. 1166, 215 U.S.P.Q. 43 (E.D. Pa., Aug. 25, 1982) the court considered this question and stated:

> "Defendant makes much of the lack of potential antitrust significance in the unfiled agreements, ostensibly as a defense to its failure to file. *Whether defendant or I think the unfiled agreements have antitrust significance is irrelevant.* . . . The Statute's prophylactic purpose is furthered only if *all* agreements, regardless of their antitrust implications, are required to be filed." (215 U.S.P.Q., at page 50, note 3; emphasis added).

As to the "made in connection with or in contemplation of the termination of the interference" language of the statute, the *FMC* court construed that to imply that only agreements causally related to the termination of the interference need be filed. In *FMC*, the agreement setting the interference was properly filed but other agreements between the parties relating to similar patent rights in Canada and Latin America were not. The court held that such foreign agreements were not causally related to the termination of the interference and, therefore, need not be filed.

When Must The Agreements Be Filed?

The statute says that the agreements must be filed "before the termination of the interference". The statute also provides, however, for a six-month "grace period", to wit:

> "The Commissioner may, however, on a showing of good cause for failure to file within the time prescribed, permit the filing of the agreement or understanding during the six-month period subsequent to the termination of the interference as between the parties to the agreement or understanding."

The United States Patent and Trademark Office has consistently taken the position that the Commissioner cannot waive the statutory six-month filing requirement (*Nelson v. Bowler and Crossley*, 212 U.S.P.Q. 761 (1981); *In re Kruysman, Inc.*, 199 U.S.P.Q. 110 (1977); *In re Application Papers Filed October 26, 1965*, 152 U.S.P.Q. 27 (1966)). The Commissioner took this same position in *Esso Research of Engineering Company v. Brenner*, Commissioner of Patents, 165 U.S.P.Q. 486, and the Court of Appeals for the District of Columbia in that case refused to compel the Commissioner to accept the filing of the agreement after the termination of the six-month period.

ARGUMENT

Defendants submit that the Agreement In Principle (agreement "A"), Settlement Agreement (agreement "B"), and License Agreement (agreement "C"), clearly constitute agreements or understandings between the parties "made in connection with or in contemplation of the termination of the interference". As such, they should have been filed before December 10, 1981, the date the interference herein was terminated.

Having not filed them by that date, CTS was then under the obligation to show good cause for the failure to file them prior to December 10, 1981, and receive permission from the Commissioner of Patents and Trademarks to file the documents prior to June 10, 1982.

Having not filed any of these documents at any time, much less prior to June 10, 1982, the three agreements and the '285 patent are "permanently unenforceable" in accordance with the clear provisions of 35 U.S.C. Section 135(c). The legislative history and court decisions are uniform in their strict construction of the clear wording of the statute to fulfill its purpose.

As to the one document that CTS did file, a) it was filed after the termination of the interference, b) no attempt was made to show good cause for CTS' failure to file the document within the time prescribed by the statute, nor was any attempt made to obtain permission from the Commissioner to file the agreements within the six-month "grace period", c) the document was not filed in accordance with Section 135(c), and d) the document clearly does not constitute "all" agreements between the parties to this interference made in connection with or in contemplation of the termination of the interference.

CONCLUSION

The provisions of 35 U.S.C. Section 135(c) have not been complied with. Not one of the three settlement agreements which terminated the interference were filed with the Patent and Trademark Office. The language of the statute is clear, the relevant court decisions or [sic] uniform in the strict construction of the statute, and the penalty for failure to comply with the statute clearly was intended to be harsh in order to insure compliance with the statute.

Accordingly, defendants respectfully submit that the Court should modify its January 25, 1982, Judgment Order herein to conform to the fact that the CTS '285 patent and the Agreements "A", "B", and "C" are now permanently unenforceable. For convenience, a Proposed Judgment Order is attached hereto.

Respectfully submitted,

By: /s/ Richard R. Trexler
Raiford A. Blackstone, Jr.
Attorneys for Defendants

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January 14, 1983

APPENDIX G

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

CTS CORPORATION, *Plaintiff,*	)	
v.	)	Civil Action No. 76 C 1152
PIHER INTERNATIONAL CORPORATION, and PIHER SOCIEDAD ANONIMA, *Defendants.*	)	

STIPULATION

It is hereby stipulated by and between the parties to this litigation through their respective counsel that:

(1) Claims 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 15, 16, 17, 18, 19, 21 and 22 of United States Patent No. 3,670,285, if valid, have been infringed by products sold by the Defendants in the United States subsequent to June 13, 1972 and referred to as PT Trimmers.

(2) The parties to this action agree to jointly move the Court to stay the proceedings in the above-entitled litigation until such time as decisions are rendered in Civil Action No. 72 C 1891, now pending in this Court and in Interference No. 98,455, now pending in the United States Patent and Trademark Office.

It is further stipulated by and between the parties to this litigation through their respective counsel, this Honorable Court consenting, that:

(3) Should CTS Corporation prevail in a decision which has become final on the "on sale" issue in the aforesaid Civil Action No. 72 C 1891 and the Party English prevail in a decision which has become final in the aforesaid Interference, a judgment be entered by this Court that the Defendants have infringed the claims of U.S. Patent No. 3,670,285 enumerated in paragraph 1 hereof, and that those claims are valid.

(4) Should the Defendants prevail in a decision which has become final on the "on sale" issue in Civil Action No. 72 C 1891 or if Heredero prevails in a decision which has become final in the aforesaid Interference, the Court should dismiss this action with prejudice, each party to bear its own costs.

MASON, KOLEHMAINEN, RATHBURN & WYSS

By /s/ Walther E. Wyss
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Telephone: (312) 346-1677

Dated:
Dec. 7, 1976

OLSON, TREXLER, WOLTERS, BUSHNELL & FOSSE, LTD.

By /s/ Raiford A. Blackstone, Jr.
One of the Attorneys for Defendant
141 West Jackson Boulevard
Chicago, Illinois 60604
Telephone: (312) 427-8082

Dated:
Dec. 7, 1976

APPENDIX H

Paper No. 206

U.S. DEPARTMENT OF COMMERCE
Patent and Trademark Office

Address: Commissioner of Patents and Trademarks
Washington, D.C. 20231

Mailed
Nov. 21, 1981
Board Of Patent
Interferences

Interference No. 98,455

English

v.

Heredero

Civil Action No. 81-1672

Receipt is acknowledged of a Certified Copy of the Mandate of the United States Court of Appeals for the Seventh Circuit affirming the judgment of the District Court, which affirmed the decision of the Board of Patent Interferences (Paper No. 182).

No further appeal having been filed, in view of the aforementioned action this interference is considered to be terminated as of the date of the court action and the files are being returned to the Examining Group for appropriate action by the Primary Examiner.

/s/ Charles R. Houpe
Clerk, Board of Patent Interferences
703/557-3550

CRHoupe/pab